Arena MOU and ILA Summary and Security Provisions

Copies of the MOU and ILA can be found on the City of Seattle's website:

http://www.seattle.gov/arena/

<u>Overview:</u> The Memorandum of Understanding (MOU) is a binding document between the City of Seattle, King County, and ArenaCo (the entity that will construct, operate and maintain the arena). It identifies the responsibilities of each party as they relate to the construction of the arena.

The Interlocal Agreement (ILA) is a binding agreement between the City and County identifying obligations between the City and County related to the MOU with ArenaCo. It spells out City responsibilities, City and County joint responsibilities, public financing and project oversight.

<u>Project Description:</u> The project is to develop, build, and operate a multi-purpose sports and entertainment arena.

- Cost: Approx. \$490 million (\$290 million from investor; up to \$200 million from City and County).
- *Size:* Approx. 700,000 sq.ft.
- Accommodate: approximately 19,000 attendees for concerts; 18,500 attendees for NBA games; 17,500 attendees for NHL games.
- Ownership: Public ownership of land (at first installment) and building (at second installment).

Public Financing

- First Installment: Acquisition of project site by City for price not to exceed \$100 million.
- Second Installment:
 - If both an NBA and NHL team are ready to play in the completed facility, then the County obligation will be \$80 million and the City obligation will be the amount that, in combination with the first installment, totals \$120 million.
 - o If only an NBA team is ready to play in the completed facility then;
 - The **County obligation** is the lesser of \$5 million or the amount supported by the County's Arena related taxes; and
 - The City obligation is, in combination with the First Installment and the County's contribution, the lesser of \$120 million and the amount that can be supported by base rent and Arena Tax Revenues.
- Repayment for public financing is from rent paid by ArenaCo and new tax revenue directly attributable to the arena.

Security Provisions

The MOU contains a number of security provisions ensuring that the City and County general funds are protected and that the public is protected from financial risk.

Construction Cost Overruns

ArenaCo is responsible for construction of the facility and any cost overruns that may occur. The City and County are beneficiaries of completion guaranty.

Annual Revenue Pledge

Payments sufficient to support public annual debt service are provided by ArenaCo. If tax revenues come in below estimate, ArenaCo pays additional rent to cover any gap.

Reserve Account

Prior to any public financial support, a security reserve equivalent to a full year of the City and County debt service will be funded by ArenaCo and held in escrow. In addition, there is an annual Coverage Ratio requirement of 2.0x Net Arena Revenues to annual debt service; if not met, ArenaCo has to make additional contributions to Reserve Account.

First Position in ArenaCo Revenues

The City and the County will be in a priority position to receive annual payments for debt service ahead of other payments to lenders. City and County will have first position on all Arena Revenues which include premium seating revenues, all naming rights revenues, and all Arena sponsorship revenues.

Guaranty of Parent

The parent company which will own both ArenaCo and the Team will provide a guaranty of ArenaCo's obligations.

Non-Relocation Agreement with Liquidated Damages

Each Team will enter into a binding non-relocation agreement for the full term of the public financing. The agreement will include Specific Performance and Liquidated damages in case of a breach. These are agreements that the leagues also recognize.

Capital Expenditure Fund

ArenaCo will contribute \$2 million annually to a capital expenditure fund. These funds will be used for capital work done in the Arena. A separate City-County Capital Expenditure Fund will also be funded by excess taxes generated at the Arena.

Locally Domiciled

The teams will be required to domicile in Seattle for tax purposes, ensuring that business revenues are subject to local taxes.

No Operational Financial Risk

ArenaCo is entirely responsible to operate and run the facility. The public will bear no costs for operations.

Maximum Public Financing Limit

The City and the County would contribute no more than \$200 million combined towards the project, which includes purchase of the land. The amount would be limited to \$120 million if the Arena opens with only an NBA Team.

Project Ownership

The City and County will own the land from the outset of the project. The City/County will have an ownership interest in the arena upon completion, and complete ownership after the termination of the team leases.

City/County Costs

The agreement requires ArenaCo to reimburse the City/County for up to \$5M in expenses associated with their participation in the project.